

VZCZCXRO7802
PP RUEHCHI RUEHDT RUEHHM
DE RUEHJA #0013/01 0030939
ZNR UUUUU ZZH
P 030939Z JAN 07
FM AMEMBASSY JAKARTA
TO RUEHC/SECSTATE WASHDC PRIORITY 2654
INFO RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHBY/AMEMBASSY CANBERRA 0287
RUEHWL/AMEMBASSY WELLINGTON 1266
RHHMUNA/HQ USPACOM HONOLULU HI
RUEHGP/AMEMBASSY SINGAPORE 5652
RHMFIUU/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHDC
ZEN/AMCONSUL SURABAYA

UNCLAS SECTION 01 OF 04 JAKARTA 000013

SIPDIS

DEPT FOR EAP/MTS AND EB/ESC/IEC
DEPT PASS OPIC, EXIM, TDA
DOE FOR CUTLER/PI-32 AND NAKANO/PI-42
COMMERCE FOR USDOC 4430

FROM AMCONSUL SURABAYA #2

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [EPET](#) [PGOV](#) [ID](#)
SUBJECT: East Java: Grim Mudflow Impact Forecast Prompts SBY
Decisions

Ref. A: Jakarta 13448, Ref. B: Jakarta 13358, Ref. C: Jakarta 12733,

11. (SBU) SUMMARY: After a special cabinet meeting held December 28, President Yudhoyono announced several decisions concerning the Lapindo mudflow including Lapindo will pay \$422 million in damages, East Java gas supplies will be reallocated from electricity production to fertilizer production and infrastructure replacement will be accelerated. A December 27 report from the National Mud Disaster Management Team (Timnas) on the probable effects from the blowout, which include the eventual severing of the Surabaya-Malang rail tracks and Porong road, the loss of high tension power lines serving much of southern East Java's manufacturing and residential areas, and the displacement of as many as 65,000 additional residents, likely prompted the cabinet meeting. Local leaders are meeting to prepare contingency plans for predicted flooding, electricity and gas shortages, transportation blockages and destruction of thousands more homes and businesses in the Sidoarjo/Porong area. The mud volcano is already having a significant economic impact on the immediately affected areas; that impact will increase if flooding closes the remaining transportation corridors. Coordinating Minister for Peoples' Welfare Aburizal Bakrie and his family are scrambling to find funds to pay for the gas well blowout while limiting the financial impact of the disaster on the family's business empire. As damages grow, President Yudhoyono's decision to keep Lapindo financially responsible begs the larger questions of whether Lapindo is able keep paying the damage control bills and if a comprehensive strategy to combat the mud can be implemented before thousands more homes and businesses are lost. END SUMMARY.

12. (SBU) President Susilo Bambang Yudhoyono (SBY) held a special cabinet meeting on December 28, which included the governors of East and Central Java, one day after receiving a report from the National Mud Disaster Management Team (Timnas) on the prospective short and long term impacts of the mud volcano in Porong/Sidoarjo, East Java, located approximately 12 miles south of ConGen Surabaya. After the cabinet meeting SBY announced the following decisions:

a) PT. Lapindo Brantas (Lapindo), the gas exploration company responsible for the well blowout that started the mudflow, must immediately pay USD 144.4 million to cover the costs of the mud problem from January 5, 2007 to March 2007.

b) Lapindo must pay USD 277.8 million as compensation to the mud victims, with the first 20 percent due in March 2007.

c) Fertilizer manufacturer PT. Petrokimia Gresik will reopen its two closed plants taking gas allocation from the National Electric Company (PLN), further reducing power generation capacity in three East Java electricity plants totaling 1,000 megawatts.

d) Replacement of damaged infrastructure will be accelerated. Roads and the rail line should be relocated within one year. Minister of Finance Sri Mulyani said the the GOI will fund USD 38.9 million to reroute 18 kilometers of the rail line. Sources of funds for other infrastructure replacement were not announced.

Worst Case Prognosis Reported To SBY

13. (SBU) Timnas scientists briefed ConGen Surabaya twice on their report to be presented to SBY (Ref. B). Timnas told us they were recommending that SBY "nationalize" the mud situation, wanting the GOI to assume not just financial but, more importantly, management responsibility for the mud situation from Lapindo. (Note: In the seven months since their well blowout started the mud volcano, Lapindo has yet to produce a comprehensive plan on how they will handle the mud flow or the 25 million cubic meters of mud already produced. End Note) Timnas' report assumes that the mudflow has become unstoppable and uncontrollable and that the flow rate will continue to increase, more than doubling to 475,000 cubic meters per day by the end of 2007. Their preliminary predictions were broken into two segments: short term or immediate risks (likely to happen over the next six months) and long term risks (likely to happen 6 months plus.) According to Timnas, the immediate risks are:

JAKARTA 00000013 002 OF 004

a) Failure of the earth dam walls: The walls are structurally unsound and highly likely to fail during the rainy season, releasing millions of cubic meters of mud with a significant force of impact. (Probability: 80-90 percent.)

b) Loss of Surabaya-Malang rail tracks and Porong road: The gas pipeline explosion (Ref B.) caused the permanent closure of the Toll road and fractured the dam walls making the mudflow direction and path no longer controllable. The mud is now a few yards away from the two remaining major north-south transportation routes. (Probability of inundation and closure: 95 plus percent.)

c) Flooding in western Porong city: Rain runoff to the Porong River is obstructed by the mud. Flooding would affect 10,000 homes, displacing an additional 55,000 residents. (Probability: 70 percent.)

d) Loss of high tension power lines: The lines currently running through the mud ponds likely will have to be cut off, significantly reducing the electricity supply in southern East Java's manufacturing and residential areas. (Probability: 60-70 percent.)

4) (SBU) The potential long term impacts are too many to list, a highlight follows:

a) Eight miles wide, six feet under: Timnas projects that an area 4 miles in radius, around the epicenter of the mud volcano, ten times its current size, will be flooded with mud to a depth of 6 feet by December 2007. This projection is based on the mudflow continuing to grow at its current rate as the well hole enlarges from erosion. (Note: The four mile radius covers 32 square miles, or roughly half the size of Washington D.C. End Note)

a) No way to go: All three main transportation corridors remain blocked, severely reducing traffic flow and causing major delays between Surabaya and southern East Java.

b) Flooding reaches Surabaya: Large masses of mud flow into the Porong River causing major flooding throughout the Brantas River Delta, including Surabaya.

c) Brantas changes course: Brantas River flooding potentially causes the river to change course away from Surabaya's fresh water intake system.

d) Fish find new waters: Severely reduced fishing catches due to increased silt in the Madura Straits.

e) Gas Main closed: Permanent closure of the gas main serving 265 industrial users in Surabaya, Sidoarjo and Gresik, including 1,000 MW of power plants.

ConGen Arranges Meeting, Local Government Reacts

15. (SBU) The Timnas scientists offered neither recommendations or immediate actions the government could take to avoid the potential destruction nor economic projections of regional impacts of the different scenarios in their report to the President. We were also surprised to find that there had been no contact between Timnas leadership and the provincial or local governments, leaving local leaders in the dark about potential disasters. ConGen arranged a December 18 meeting introducing the Timnas scientists to the senior economists advising East Java's political leaders. Our actions to encourage communication between the disaster response team and local government prompted an immediate response from local governments. East Java Governor Imam Utomo held an emergency December 19 meeting at his home with all the Regents and Mayors of the immediately affected areas to brief him on the economic effects and projections in light of the Timnas forecasts. Local leaders reported that their economies are down an average of 15% in comparison to the period prior to the Lapindo well blow out that caused the mud volcano on May 29. Following that meeting, Governor Utomo, for the first time, acknowledged publicly that the East Java economy has been damaged by the mud and that the economic impacts of the mud are increasing. On

JAKARTA 00000013 003 OF 004

December 27, Win Hendrarso, Sidoarjo Regent and Utomo requested USD 332 million from the GOI to offset social costs to the province of the 15,000 internally displaced residents and called for Lapindo and Bakrie to quickly pay the USD 191 million already promised to the first 3,964 homeowners who lost their homes to the mud.

Transportation and Gas Shortages Hurt Local Producers

16. (SBU) Economic damages, so far contained mainly to the Porong/Sidoarjo area, will spread to a much larger area of the province with reduced access to transportation and less consistent gas and electricity supplies. East Java accounts for approximately 16 percent of Indonesia's GDP and, according to the Central Statistical Bureau, the eight regencies likely to be most impacted by the flooding account for 35-40 percent of East Java's GDP. The economic impacts of large scale transportation failures will be significant to export manufacturers in the Pasuruan, Malang and Pandaan industrial estates. According to several export factory manager contacts, if transportation times increase to 1-2 days and transportation costs increase by \$300 per container, they will start considering closing operations until conditions improve. According to information provided to Timnas by the Regional Economic Development Institute in Surabaya (REDI), there are 537 factories that will be immediately impacted by the transportation corridor loss. REDI estimates that 100-150,000 jobs could be lost in those companies within 90 days of closure of the rail line and the Porong Road. The East Java Investment Board reports that the 537 factories at risk of closing from transportation failures have an investment value of nearly USD 19 billion. The general manager of the Philips light bulb plant in Sidoarjo also reports significantly reduced supplies of gas since the pipeline explosion. His plant has lost millions of dollars in export orders because it can no longer guaranty delivery times. The decrease in gas supply after the pipeline explosion is also impacting domestic fertilizer production and forced the closure of two PT. Petrokimia plants in Gresik, which may now reopen after the gas reallocation. Both East Java rice and sugar producer associations recently complained that they anticipate 10-20 percent reduced crops due to fertilizer shortages in the

province.

Bakrie Financial Woes Mounting

17. (SBU) The Lapindo disaster is only one of several financial strains on Aburizal Bakrie's business empire. Bakrie controlled PT. Energi Mega Persada (EMP), the 50% owner and managing partner of PT. Lapindo Brantas (Lapindo), announced December 21 that the company would report a USD 180 million loss for 2006, wiping out the company's entire book equity position. The losses are due solely to expenses incurred in conjunction with the well blowout and resulting mudflow in Porong. The Bakrie family has been funding Lapindo's relief well and mud control construction efforts, ostensibly from personal funds and funds from other family businesses. The Bakrie family's coal business in Kalimantan, PT Bumi Resources (Bumi) is also struggling with USD 216 million of negative operating cash flow year to date, mounting debts and an USD 800 million loan secured by its ownership in the mines reported in default. According to contacts, the USD 150 million Bakrie has already spent on Lapindo has emptied his coffers of cash and some of the Bakrie privately held businesses are now not paying their bills as a result. A contact at the Jawa Pos newspaper told Pol/econoff that Bakrie was very recently in Singapore trying to arrange a USD 100 million loan. Terms offered were a 10 percent loan fee, 7.5 percent interest rate for a one year term, secured by his shares in other Bakrie businesses not related to EMP or Bumi.

Comment: Important Questions Remain

18. (SBU) The mud volcano has escalated onto the national stage as an issue that will likely drag on for many more months. SBY's reported decisions about the mudflow appear to keep the onus squarely on Lapindo to finance damage control efforts and clarify some issues, particularly GOI financial support for the rebuilding of some infrastructure, but also leave many questions unanswered. Chief

JAKARTA 00000013 004 OF 004

among these is who will be responsible for developing a long term strategy for dealing with the mudflow as it grows in size and economic impact. Additionally, it is not clear whether Lapindo or the Bakrie family businesses have the financial wherewithal to pay over USD 400 million in initial compensation (USD 200 million demanded by March 2007) and who will step in if they don't. We doubt that SBY's pronouncements on the mudflow are the last word. If Lapindo and/or Bakrie are unable to foot the bill, GOI experts working on the problem will be forced to come up with a plan that will likely be expensive and politically difficult to implement. Any such comprehensive plan will likely take many months to complete and implement, by which time it may be too late to stop the mudflow or save the thousands of homes and businesses at risk.

HEFFERN